



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Discussion and appropriate action regarding Adoption of Resolution electing to withdraw from the CalPERS Medical Program (Public Employee's Medical and Hospital Care Act)

MEETING DATE: Wednesday, August 4th, 2004

PREPARED BY: Risk Manager

RECOMMENDED ACTION: That Council discuss and possibly adopt the attached Resolution of the Lodi City Council Electing to Cease to be Subject to the Public Employees' Medical and Hospital Care Act.

BACKGROUND INFORMATION: Staff is recommending withdrawal of the City of Lodi from the CalPERS Medical Program primarily for the following reasons:

- Elimination of Sutter Hospitals and providers' medical groups from the CalPERS Blue Shield Network for 2005
- Reduction in HMO health plans (from four to one)
- Historical premium trend (Blue Shield: 2003-23%, 2004-18%, 2005-23.7%)
- Institution of regional rating for 2005
- Annual premium increase for 2005

The City recently received medical insurance rate increases from CalPERS, which included an HMO increase of 23.71%. Most employees (84%) are members of this HMO. These increases present the City with additional expenditures for active City employees in calendar 2005 approximately \$724,332 greater than 2004. A primary factor driving this increase is CalPERS' new practice of "regional rating". This drives rates up in northern California while lowering them in southern California. CalPERS Medical Program members in the Los Angeles area will realize rate decreases of as much as 8.7%. The HMO premium increase for State employees will increase, but only by 11.4%, not the 23.71% facing northern California cities.

The City's benefits broker, ABD Insurance & Financial Services, has located a possible alternative medical insurance provider; PacifiCare. After initial quotes were provided, PacifiCare subsequently reduced its rates for both active employees and retirees. As is currently available with CalPERS, Kaiser would also be an optional carrier along with PacifiCare. Preliminary rate estimates have increased unexpectedly, but are not 100% final – the potential still exists they may come in lower. PacifiCare/Kaiser's rates for active City employees in calendar 2005 represent additional expenditures in calendar 2005 approximately \$353,970 greater than calendar 2004. This generates a savings of \$370,362 when compared to the CalPERS increase.

APPROVED:

A handwritten signature in black ink, appearing to read "H. Dixon Flynn".
H. Dixon Flynn, City Manager

The City Manager had conducted meetings with representatives of the City's various bargaining groups, active City employees, as well as retirees. At these meetings many questions were asked regarding the possible transition to a new health carrier and answers were provided. A written FAQ sheet was e-mailed or U.S. post mailed to those who could not attend.

The decision before Council today is not to definitively select a new medical carrier, but to decide on whether the City should leave the CalPERS Medical Program. A new carrier must be selected in the month of September. This communication was prepared prior to receiving word from all bargaining groups regarding their participation in the potential change. Preliminary feedback is that most would not object to a transition away from the CalPERS Medical Program. However, Council has reviewed the letter from Lodi Professional Firefighters stating they "believe it is in the best interest of the City, and their firefighters to stay with CalPERS medical plans." Staff has learned that since the City of Lodi entered the CalPERS Medical Program as one entity, if it chooses to leave, it must do so the same way – as one entire entity. It is not possible for individual City of Lodi bargaining groups to remain in the program. As this communication is being written, meetings are being set up with Lodi Professional Firefighters to ascertain what their specific concerns are regarding this possible change, and whether PacifiCare or the City can address those concerns.

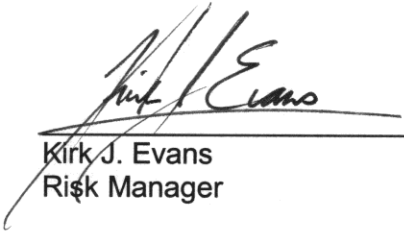
There are no guarantees that future CalPERS rate increases will not continue to come in at unacceptable levels. Other northern California cities have left (Yuba City, Folsom) and are considering withdrawing from CalPERS. This will leave behind those that have difficulty finding alternative health carriers, e.g., cities that use medical services and facilities to a relatively high degree. This would only serve to make remaining northern California CalPERS Medical Program members the more expensive users of the system – creating further pressure to drive up rates.

Concern has been expressed by City staff that PacifiCare rates could increase dramatically in future years. In a letter presented at the Council shirtsleeve 7/27/04, Heidi Duncan, Senior Business Manager for PacifiCare, does offer retention and health care cost trend guarantees relative to their 2006 rate. In no way do these guarantees assure the entire rate increase for 2006 will be capped, but specific components of it will be. The 2005 CalPERS rate increase will raise the annual medical bill for active employees to a level such that if CalPERS only raised their rates by 18% in 2006 (this was their increase in 2004), PacifiCare would have to raise their rates by 28% in order to reach an equivalent medical bill for the year. In other words, the City is money ahead if it transitions to PacifiCare and their increase in 2006 is any figure less than 28%.

Given the City of Lodi must now make every effort toward reducing expenditures to bring them in line with revenues, and we have a savings of \$370,362 available to us over calendar year 2005 (potentially from a program that provides benefits equivalent or superior to CalPERS) it is staff's recommendation the City withdraw from the CalPERS Medical Plan. In the next few weeks we will finalize procurement of a new medical carrier, and bring this back to Council for approval.

Representatives from ABD and PacifiCare will be present at this Council meeting to answer any questions Council members may have. As a reminder, any decision by the City to withdraw from the CalPERS Medical Program requires adoption of a resolution to this effect by August 14th, 2004.

FUNDING: Not Applicable



Kirk J. Evans
Risk Manager

A RESOLUTION OF THE LODI CITY COUNCIL ELECTING
TO CEASE TO BE SUBJECT TO THE PUBLIC
EMPLOYEES' MEDICAL AND HOSPITAL CARE ACT

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WHEREAS, Government Code Section 22938 provides that a local agency which has elected to be subject to the Public Employees' Medical and Hospital Care Act may cease to be so subject by proper application by the local agency; and

WHEREAS, the City of Lodi, hereinafter referred to as Public Agency is a local agency which has elected to be subject to the provisions of the Act;

NOW, THEREFORE, BE IT RESOLVED, that the Public Agency elect, and it does hereby elect, to cease to be subject to the provisions of the Act; and

BE IT FURTHER RESOLVED, that coverage of the Act cease on December 31, 2004.

Approved this 4th day of August, 2004

LARRY D. HANSEN
Mayor

Attest:

SUSAN J. BLACKSTON
City Clerk

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State of California
County of San Joaquin, ss.

I hereby certify that Resolution No. 2004-_____ was passed and adopted by the City Council of the City of Lodi in a regular meeting held August 4, 2004, by the following vote:

AYES: COUNCIL MEMBERS –

NOES; COUNCIL MEMBERS –

ABSENT: COUNCIL MEMBERS –

ABSTAIN: COUNCIL MEMBERS –

SUSAN J. BLACKSTON
City Clerk

Approved as to Form:

D. STEPHEN SCHWABAUER
City Attorney

Jennifer Perrin

From: Curt Juran
Sent: Tuesday, August 03, 2004 3:42 PM
To: Joanne Narloch
Cc: Peter M. Iturraran; Chet Somera; Mark Zollo; Diana S. Gonzales; Greg Ramirez; City Council; Ann Areida-Hintz; Betsy Peterson; Buzz Fujitani; Charles Swimley; Cory Wadlow; Curt Juran; David Morimoto; Del Kerlin; Dennis Callahan; Frank R. Beeler; Gary Wiman; George M. Bradley; Hans Hansen (Lodi EUD); Jeanie Biskup; Joel Harris; Joseph Wood; Mark White; Maxine Cadwallader; Mel Grandi (Lodi EUD); Michael Reese; Odette (Lourdes Bondoc); Paula Fernandez; Rachel Sawyer; Rebecca Areida; Roy Todd; Ruby Paiste; Sharon Welch; Sondra Huff (Lodi EUD); Stacy Christy (Lodi EUD); Steve Dutra; Steve Mann; Susan Bjork; Tiffani Fink; Tom Alexander; Tyson; Wally Sandelin
Subject: Discontinuation Of CalPERS Insurance

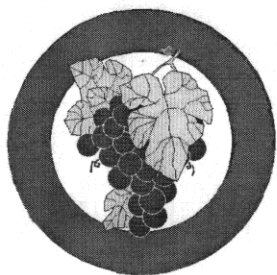
The L.C.M.M.A. met on Monday, August 2, 2004, and discussed the options available to us regarding health insurance for 2005. The opinion of those in attendance last night is that we feel strongly that the City of Lodi does need to save money in future years, but are concerned that money saved will be spent on new programs and/or construction projects. We feel that adding programs or the construction of new facilities would be contrary to any attempts to save money. The City is already short staffed and any new facilities would strain our employee resources even further. In addition, we are having to cut back on maintenance of the facilities and landscape we currently have. In what we feel is in the best interest of the City, the L.C.M.M.A. has agreed on changing insurance providers with the implementation of the amendment to our contract as spelled out in the attached letter.

You will be receiving a signed copy of this letter in interoffice mail. Please feel free to contact me if have any questions about this.

Curt Juran
 President LCMMA
 P.O. Box 1010
 Woodbridge, CA 95258
 ph. (209) 333-6740 fax (209) 333-5506
 email c.juran@lodi.gov



Discontinue
 CalPERS ins3.doc (..



LODI CITY MID – MANAGERS ASSOCIATION

L.C.M.M.A.

P.O. Box 1010

WOODBIDGE, CA 95258

August 3, 2004

PRESIDENT

Curt Juran

VICE PRESIDENT

Joseph Wood

SECRETARY

Charlie Swimley

TREASURER

Cory Wadlow

SARGENT AT ARMS

Jeannie Biskup

Ms. Joanne Narloch
Human Resources Director
221 West Pine Street
Lodi, CA 95240

Re: Discontinue CalPERS Insurance

Dear Ms. Narloch,

The L.C.M.M.A. met on Monday, August 2, 2004, and discussed the options available to us regarding health insurance for 2005. We feel strongly that the City of Lodi does need to save money in future years, but are concerned that money saved will be spent on new programs and/or construction projects. We feel that adding programs or the construction of new facilities would be contrary to any attempts to save money. The City is already short staffed and any new facilities would strain our employee resources even further. In what we feel is in the best interest of the City, the L.C.M.M.A. has agreed on changing insurance providers with the following amendment to our contract:

- 15.1 All employees are offered medical insurance for themselves and dependents. The City shall pay 100% of the premium for employee only, up to the highest HMO available in our geographical area. Effective as soon as administratively possible, employees shall contribute \$80.00 per month for Employee Plus One and \$104.00 per month for full family coverage. Should an employee decide to elect single medical coverage, the City of Lodi will deposit \$25.00 per pay period into the employee's deferred compensation account. If no coverage is elected, \$71.15 per pay period will be deposited into the employee's deferred compensation account.
- 15.2 Only one City of Lodi employee may carry dependent coverage for another City employee. Co-payments incurred due to the loss of dual coverage will be reimbursed by the City of Lodi on a quarterly basis.
- 15.3 Retired employees will have the ability to purchase lifetime medical coverage regardless of insurance provider.

- 15.4 The City of Lodi will contribute to the retirees medical premium cost for health insurance as spelled out in the letter to retirees dated February 27, 2003, reflecting the changes as specified in Senate Bill 1464, effective January 1, 2004, as follow:

January 2004: \$32.20 per month

January 2005: \$48.40 per month

January 2006: \$64.60 per month

January 2007: \$80.80 per month

January 2008: \$97.00 per month.

The L.C.M.M.A. would like to encourage the City Council to reserve the savings from the reduced health insurance premiums to offset the cost of maintaining current employee benefits and wages.

We feel the requests above are reasonable and prudent, as they reflect current practices or are of no cost to the City of Lodi. These requests must be agreed to in writing prior to our acceptance of any changes to our current Memorandum of Understanding.

Please feel free to contact me if you have any questions or as soon as a decision is made.

Sincerely,

Curtis Juran
L.C.M.M.A. President

CalPERS 2005 Health Premiums - Regional

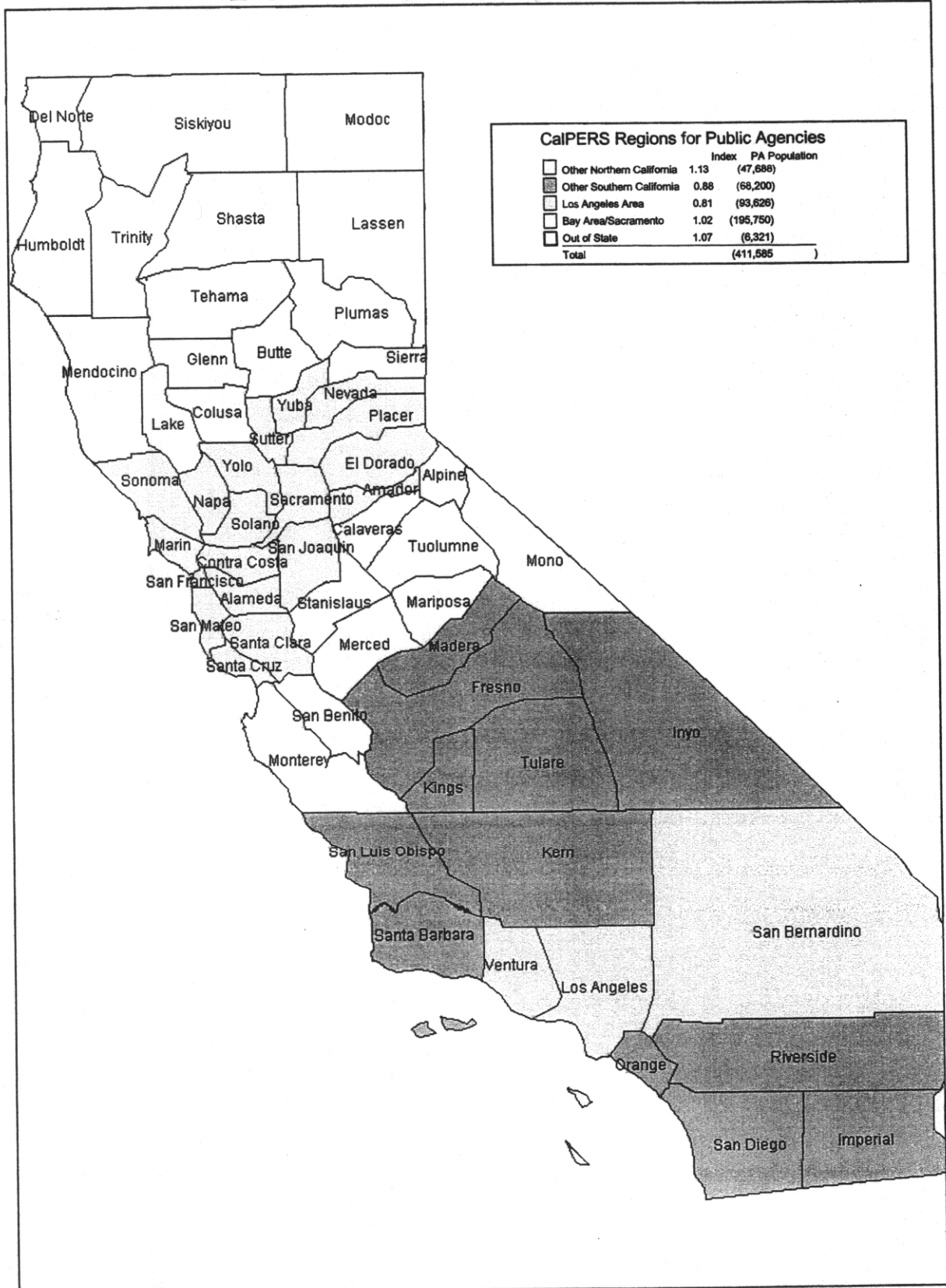
Contracting Agencies Only

Basic	2004			2005			Percent Change (+/-)
	Single	2-Party	Family	Single	2-Party	Family	
Basic Premium Rates - Bay Area/Sacramento							
Alameda, Amador, Contra Costa, El Dorado, Marin, Napa, Nevada, Placer, Sacramento, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma, Sutter, Yolo, Yuba							
Blue Shield CA	\$315.22	\$630.44	\$819.57	\$389.96	\$779.92	\$1,013.90	23.71%
Kaiser CA	305.42	610.84	794.09	354.69	709.38	922.19	16.13%
PERS Choice	349.41	698.82	908.47	369.74	739.48	961.32	5.82%
PERSCare	544.77	1,089.54	1,416.40	619.93	1,239.86	1,611.82	13.80%
PORAC	399.00	733.00	931.00	399.00	748.00	950.00	1.80%
WHA	280.41	560.82	729.07	322.47	644.94	838.42	15.00%
Basic Premium Rates - Los Angeles Area							
Los Angeles, San Bernardino, Ventura							
Blue Shield CA	\$315.22	\$630.44	\$819.57	\$287.75	\$575.50	\$748.15	-8.71%
Kaiser CA	305.42	610.84	794.09	294.78	589.56	766.43	-3.48%
PERS Choice	349.41	698.82	908.47	344.12	688.24	894.71	-1.51%
PERSCare	544.77	1,089.54	1,416.40	576.96	1,153.92	1,500.10	5.91%
PORAC	399.00	733.00	931.00	399.00	748.00	950.00	1.80%
Basic Premium Rates - Other Southern California							
Fresno, Imperial, Inyo, Kern, Kings, Madera, Riverside, Orange, San Diego, San Luis Obispo, Santa Barbara, Tulare							
Blue Shield CA	\$315.22	\$630.44	\$819.57	\$323.25	\$646.50	\$840.45	2.54%
Kaiser CA	305.42	610.84	794.09	308.24	616.48	801.42	0.92%
PERS Choice	349.41	698.82	908.47	351.44	702.88	913.74	0.58%
PERSCare	544.77	1,089.54	1,416.40	589.24	1,178.48	1,532.02	8.16%
PORAC	399.00	733.00	931.00	399.00	748.00	950.00	1.80%
Basic Premium Rates - Other Northern California							
Alpine, Butte, Calaveras, Colusa, Del Norte, Glenn, Humboldt, Lake, Lassen, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Plumas, San Benito, Shasta, Sierra, Siskiyou, Stanislaus, Tehama, Trinity, Tuolumne							
Blue Shield CA	\$315.22	\$630.44	\$819.57	\$394.26	\$788.52	\$1,025.08	25.07%
Kaiser CA	305.42	610.84	794.09	362.58	725.16	942.71	18.72%
PERS Choice	349.41	698.82	908.47	384.38	768.76	999.39	10.01%
PERSCare	544.77	1,089.54	1,416.40	644.48	1,288.96	1,675.65	18.30%
PORAC	399.00	733.00	931.00	399.00	748.00	950.00	1.80%
WHA	280.41	560.82	729.07	322.47	644.94	838.42	15.00%
Basic Premium Rates - Out of State							
Kaiser/Out of State	\$426.93	\$853.86	\$1,110.02	\$475.92	\$951.84	\$1,237.39	11.47%
PERS Choice	349.41	698.82	908.47	402.69	805.38	1,046.99	15.25%
PERSCare	544.77	1,089.54	1,416.40	675.17	1,350.34	1,755.44	23.94%
PORAC	399.00	733.00	931.00	399.00	748.00	950.00	1.80%

Medicare	2004			2005			Percent Change (+/-)
	Single	2-Party	Family	Single	2-Party	Family	
Medicare Premium Rates - All Regions							
Blue Shield CA	\$319.97	\$639.94	\$959.91	\$287.78	\$575.56	\$863.34	-10.06%
Kaiser CA	273.86	547.72	821.58	243.22*	486.44*	729.66*	-11.19%
Kaiser/Out of State	239.50	479.00	718.50	260.95	521.90	782.85	8.96%
PERS Choice	305.67	611.34	917.01	279.60	559.20	838.80	-8.53%
PERSCare	336.07	672.14	1,008.21	289.32	578.64	867.96	-13.91%
PORAC	351.00	701.00	1,049.00	351.00	701.00	1049.00	0.00%
WHA	280.24	560.48	840.72	280.24	560.48	840.72	0.00%

*These Kaiser Medicare premiums are lower than those approved by the CalPERS Board in June 2004 and are subject to Board approval.
6/30/04

Approved Regions



Public agency membership numbers include all plans:
Blue Shield, PERSCare, PERS Choice, Kaiser and Western Health Advantage.

LIST OF CALIFORNIA COUNTIES BY REGION

Bay Area/ Sacramento	Los Angeles	Other Southern California	Other Northern California	Out-of-State
Contra Costa	Los Angeles	Orange	Monterey	Out-of-State
Alameda	San Bernardino	Riverside	Stanislaus	
Solano	Ventura	San Diego	Butte	
San Mateo		San Luis Obispo	Humboldt	
Sacramento		Santa Barbara	Shasta	
Santa Clara		Fresno	Lake	
Placer		Madera	Merced	
Santa Cruz		Kern	Siskiyou	
San Joaquin		Inyo	Alpine	
Sonoma		Tulare	Glenn	
Yolo		Kings	San Benito	
Marin		Imperial	Mendocino	
San Francisco			Tuolumne	
Nevada			Calaveras	
Napa			Mariposa	
El Dorado			Trinity	
Sutter			Plumas	
Amador			Lassen	
Yuba			Mono	
			Colusa	
			Tehama	
			Del Norte	
			Modoc	
			Sierra	

Kaiser already regionally prices its out-of-state premium. Kaiser covers CalPERS members in six regions outside California and calculates its overall out-of-state premium by using the average premium for those six regions.

Regional Pricing Questions and Answers

What is regional pricing?

Health care costs throughout California vary. Regional pricing adjusts premiums to reflect the actual cost of health care in a given region.

Who does regional pricing impact?

Regional pricing affects contracting public agency members enrolled in the Basic Plan. Regional pricing does not impact Medicare enrolled retirees.

Will regional pricing affect the state rate?

No. CalPERS will continue to base the state rate on the entire CalPERS pool of both public and state agencies. Public agencies will be priced using public agency information only and their rates will closely align with what they would pay in the open market where they are located.

Why regionally price?

Without regional pricing, CalPERS members in low cost regions pay premiums in excess of market rates. Those in high cost regions pay less than market rates. Last year CalPERS lost 37,000 members, mostly in low cost regions. The loss increased premiums for the remaining members by almost three percent. Regional pricing will ensure CalPERS' premiums are competitive throughout California, stabilizing costs by providing contracting agencies with an increased incentive to stay with CalPERS.

How did CalPERS create regions?

CalPERS contracted with Milliman USA to analyze CalPERS-specific data creating county cost indices, and then grouping counties to create regions.

Milliman developed county cost indices, adjusting for:

- Insurance variation.
- Age, sex and disease burden.
- Family composition.
- Administrative fees.

Milliman and CalPERS used the following criteria to group counties into five regions:

- Location.
 - Cost indices.
 - Number of members.
-

How will premiums be impacted by regional pricing?

Staff will apply Board approved regional factors (see below) to the 2005 state premium to calculate each regional premium. For example, if the regional factor is 1.05 and the 2005 state premium is \$250, the regional premium is 1.05 times \$250 or \$262.50.

Staff recommended regional factors:

Insert chart

Will regional pricing change members out-of-pocket expenditures?

Member share of premium is subject to the contract negotiation process. This process generally involves the employer and the employees' representative. Although CalPERS is not involved in these contract negotiations, we anticipate that regional pricing will result in more contracting agencies remaining in the CalPERS health care pool, stabilizing future costs.

It's More Than The Premium

**Important Facts to Know About
Your Health Benefits Program**

The Hidden, Unknown and Unanticipated Costs of Leaving CalPERS

916-658-1233

Revised 04/09/04 G



Blue Cross of California is an Independent
Licensee of the Blue Cross Association



An Independent Member
of the Blue Shield Association



Advantages to the CalPERS Health Benefits Program

One of CalPERS strategic goals is to provide high-quality customer service. Due to its large membership, CalPERS and its health partners have built dedicated staff, business units and resources directly benefiting CalPERS members.

Outstanding service satisfies enrollees and greatly reduces complaints regarding legal issues, contract interpretation and benefit disclosures, thereby limiting the liability exposure to the entity. Public agencies cannot duplicate the resources of CalPERS without incurring significantly higher administrative costs.

A testimonial to the success of the CalPERS approach to healthcare benefits is reflected in the increase of covered lives in CalPERS' health program over the past five years. The population has grown 5 percent per year to a total of approximately 1,200,000 covered lives. Membership for public agencies and schools has grown from 11 percent of covered lives in 1986 to 38 percent, or approximately 460,000, covered lives today.

As part of the CalPERS Strategic Health Plan, several initiatives and additional actions were undertaken by the CalPERS Board of Administration to strengthen communication and set the stage for a new partnership with agencies and their members. These initiatives include:

- **Expand disease management programs in all CalPERS health plans, targeting members with the most prevalent chronic diseases in order to improve outcomes and cost-effectiveness of healthcare services.**
- **Form a Contracting Agency Benefits Advisory Panel to consider and recommend benefit designs to the CalPERS Board of Administration.**
- **Conduct studies on pharmacy benefit options, such as a pharmacy carve-out and joint-purchasing coalitions.**
- **Become more active on federal and state legislative remedies that would influence cost, quality and utilization of as well as access to prescription drugs.**
- **Enter into multiyear contracts with health plans to improve the stability, cost effectiveness and quality of healthcare services.**
- **Create new and proactive public agency marketing campaigns.**
- **Provide better value by securing greater competition and accountability at the provider level.**

California Public Employees' Retirement System (CalPERS) is presenting the important information below for your consideration as you evaluate participation in the CalPERS Health Benefits Program through the Public Employees' Medical and Hospital Care Act (PEMHCA).

CalPERS Is Dedicated to Maximizing Your Healthcare Dollar

State and public agencies, numerous labor organizations and the CalPERS Board of Administration have expressed concern over the rising cost of healthcare.

That's why CalPERS is actively pursuing alternative health benefit options and has dedicated expert staff to support the public employer and maximize your benefit dollars.

CalPERS insures over 1.2 million lives and is the largest purchaser of public health benefits in California and the second largest public purchaser in the nation. When tackling the complicated issues influencing healthcare, no public agency in California has more clout than CalPERS with health plans, as well as with medical community and labor groups.

For example, at the February 18, 2004, Health Benefits Committee Meeting, the Contracting Agency Benefits Advisory Panel presented nine recommendations drafted by panel members to ensure that our health benefit design(s) consider the demographic, geographic and financial diversity of our contracting agency members. As a result, staff is developing initiatives to present to the committee that will help attract and retain contracting agencies in the PEMHCA Program. Three of those initiatives will focus on regional pricing, alternative plan designs and a joint statewide drug purchasing pool.

In addition, the CalPERS Board sponsored legislation that became law, effective January 1, 2004, allowing CalPERS, on behalf of public agencies, to have flexibility in both pricing and benefit structure.

Leaving CalPERS Significantly Impacts Costs

Your future healthcare costs involve more than just initial low premiums offered by brokers working on commission. First-year premium rates are only one component of healthcare costs and are no guarantee of long-term cost savings, liability protection or labor satisfaction. Consider the following important points and the significant impact on your healthcare costs and administrative resources that may result from leaving CalPERS:

- **There are many and varied costs associated with administering a health program as well as the in-depth knowledge required to oversee and understand benefit design, contribution levels, renewals, contract provisions, out-of-area coverage, retiree issues and cost containment. Should you leave CalPERS, all of these factors will significantly contribute to your future renewal costs, which you will no longer be able to spread over a risk pool of 1.2 million members.**
- **Currently, your health benefit program is administered at a very low administrative fee by the CalPERS administrative staff. CalPERS' administrative costs are .44 percent, or less than one half of 1 percent of premium, which is the lowest administrative fee of any benefit program in the state. Through CalPERS, your agency receives a premium that has been lower than that of the state and national averages for the past 10 years.**
- **Your agency would be responsible for all legislative and contractual compliance implementation and oversight, which may increase your staffing needs.**
- **There will be a significant increase in legal review and dedicated time from your board or council, legal counsel, labor relations representatives and human resources management and staff regarding on-site contract responsibilities.**
- **Be aware of the possible implications of low first-year rates offered by brokers. Small groups are typically underwritten on experience in the second year, which means a small group can be seriously impacted by one high-cost claim or by increasing the retiree vs. active enrolled ratio.**
- **With CalPERS, there are no broker fees. Broker commissions are typically 2-5 percent of the premium for large groups, and higher for small groups under 500. If a broker offers a package of services similar to what CalPERS provides, there will be additional costs (COBRA administration, online enrollment, etc.).**

Basic Questions You Should Answer Before Making a Decision

- **What are the savings you would expect to see in 2005, 2006 and 2007 after leaving CalPERS, calculating new rates, administrative expenses and broker fees for implementing and administering a new plan?** Take into account administrative expenses incurred through open enrollment materials, legal review, contract development, enrollment, eligibility, claims resolution, legislative compliance, policy contract provisions, staff resources and broker fees, as well as other costs associated with transitioning plans.
- **Do alternative carriers give you an explicit pricing methodology each year through 2006 that clearly states administrative and profit costs as well as broker fees?** Do you understand how an unexpected high claim will impact your renewal? If your experience is poor, can the health plan cancel with a 30-day notice, negating the rate caps that were negotiated?
- **Have you budgeted for the cost increases that will be required to administer your own plan?** Do you have board or council approval to add positions during these difficult budget times? Are you prepared to devote time to classification studies? Are you prepared to handle responsibilities not picked up by new plans, including annual rate negotiations and ongoing administrative, labor negotiations and service tasks?
- **Have you been quoted appropriate levels of replacement coverage that do not obligate you to pay for richer benefit packages in the future or leave your out-of-area dependents and/or early retirees with no affordable coverage options?**
- **Which services will a new carrier and broker be able to guarantee beyond the installation, including enrollment systems and member services?**
- **What types of disease management and wellness programs that employees currently participate in will be continued?** How will you transition employees impacted by the loss of their wellness programs?
- **Have you done a provider and hospital network comparison to assure your employees they will not lose access to their valued providers?**
- **Have you compared the contract provisions, not just the benefit plans, with what CalPERS offers?** What are the plan policies regarding retroactive adjustments for dis-enrollments, late enrollments, premium under- and overpayments, adding dependents, etc.?
- **Are rates subject to fluctuation based on changes in your agency's demographics and experience rather than those of a growing pool of 1.2 million lives?** How will you fund future rate increases?

We are here to help. Please let us know if you have any further questions or if we can be of service to you:

916-658-1233

Understand How Leaving CalPERS Significantly Impacts Costs: The Hidden, Unknown and Unanticipated

Leaving CalPERS Significantly Impacts Costs

Public agencies have unique costs associated with the purchase and delivery of a health benefits program. First-year premium rates are only one component of the costs and are no guarantee of long-term cost savings, liability protection or labor satisfaction. In choosing to administer your own healthcare plan, you will have to duplicate most or all of the services currently provided by CalPERS. Consider the following important points when evaluating participation in the CalPERS health benefits program and the significant impact that may result to your healthcare costs and administrative resources:

- **In choosing to administer your own healthcare plan, you may experience substantial increases in administrative costs, resulting from labor relations' time and expense relating to labor negotiations involving benefit design, renewals, contribution levels, provider network/out-of-area coverage and retiree issues.** Additionally, education and training will be required, possibly requiring new job classifications in order to provide the level of expertise CalPERS furnishes in administering your plan, in managing the services provided by your broker and in interpreting contracts, legislative compliance and other mandates. If you join a coalition, you will need to represent your agency on a regular basis and take on the "hat" of evaluating renewals and other information to disseminate to your board/council members.
- **The additional work may drive additional costs, as you may be required to hire more human resources support staff to administer your plan.** This staff will be required to act in capacities such as contract interpretation, contract development, dispute resolution and legislative and administrative compliance as well as to facilitate open-enrollment events and materials. It is important to remember that from a legislative and contractual compliance basis, your agency must provide all of the resources and services that CalPERS provides. Online services for health enrollment, billing and electronic fund transfer are also provided by CalPERS to participating public agency employers at no charge. CalPERS charges a very low administrative fee, currently less than one-half of 1 percent at 0.44%.

- **There will be a significant increase in legal review** and dedicated staff time from your board or council, legal counsel, labor relations representatives and human resources management and staff regarding on-site contract responsibilities such as board/council approval, legal review, memorandum of understandings and liability issues related to disclosures, legal notifications and contract development. You may also experience a significant increase in lobbying directly to your board or council by interested parties for plans, providers and benefit issues.
- **When considering purchasing your healthcare benefits outside of CalPERS, be aware of the possible implications of low first-year rates.** Small groups are typically underwritten on experience in the second year, which means a small group can be seriously impacted by one high-cost claim or by increasing the retiree vs. active enrolled ratio. In addition, a health plan must build in an adjustment for experience and will add how much it expects costs will rise in the next year. That price component alone has been in the double digits in recent years.
- **Your agency should be informed regarding your broker's commissions.** Broker commissions are typically 2%-5% of premium for large groups, higher on small groups under 500. If a broker offers a similar package of services to what CalPERS provides, there will be additional costs, such as COBRA administration, online enrollment, etc. What will you receive in terms of assistance and services? Make sure to request a "complete" client list from the broker in order to check references. You should consider performing random reference checks of other public agencies, not just the ones provided for in your broker's reference list. What is the time commitment they offer, and is it that of the broker/consultant or an administrative staff? What services will they assume for their commissions or fees, and what can you expect in terms of support/availability?

We are here to help. Please let us know if you have any further questions or if we can be of service to you.

(916) 658-1233



Executive Office

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April 2004

We've heard you.

I want to assure you the California Public Employees' Retirement System's (CalPERS) Board of Administration has a renewed focus on public employer needs and understands the unique health-care issues facing you and your employees. We know many of you are looking at the marketplace to help answer the difficult questions around rising healthcare premiums.

The CalPERS Board is aware of the recent increase in marketing efforts directed at public employers in California. Several issues are fueling these efforts, and I want to share these with you, as well as **highlight the significant benefits of staying with CalPERS and the increased costs to your agency should a decision be made to leave CalPERS and contract for your health benefits program from another party.**

Due to Vehicle License Fee (VLF) reductions, the Educational Revenue Augmentation Fund (ERAF) changes, reduced state funding and additional budget reductions impacting local governments, your human resources and budget staff are facing unprecedented fiscal pressures. Unfortunately, these pressures coincide with the aggressive marketing tactics focused on public agencies by brokers and health plans, causing many to erroneously believe savings can be found in their healthcare premiums through "first-year rates."

Please be aware your future healthcare costs for employees involve more than just initial low premiums offered by brokers working on commission. There are a considerable number of costs associated with administering a health program on-site, requiring in-depth knowledge to oversee and plan performance and to understand benefit design, contribution levels, renewals, contract provisions, out-of-area coverage, retiree issues and cost containment. Should you leave CalPERS, all of these factors will significantly contribute to your future renewal costs, which you will no longer be able to spread over a risk pool of 1.2 million members.

When presented with proposals to leave CalPERS, please be aware that **the CalPERS Board of Administration has adopted a five-year waiting period** for a public employer that elects to terminate participation under CalPERS and the Public Employees' Medical and Hospital Care Act before it may return to CalPERS.

Currently, CalPERS administers your health benefit program at the very lowest fee available to public employers in the state. CalPERS administrative costs are .44 percent, or less than half a percent of premium. With CalPERS, there are no broker commissions or additional fees for materials, annual enrollment, rate negotiations or contract development. Further, smaller public agencies cannot duplicate the resources provided by CalPERS and its health plan partners, such as support with specialists in information technology, benefit administration, online enrollment, employee communications, educational material, legal review, provider negotiations, network maintenance, member grievances and legislative and policy updates.

Through CalPERS, your agency receives a premium that is predictable, steady and not subject to sudden spikes or unanticipated plan cancellations. **A recent survey by Milliman U.S.A. shows that CalPERS HMO rate increases have been lower than the state and national averages for the past ten years** (see enclosed chart).

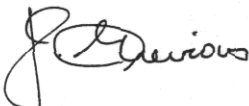
CalPERS insures over 1.2 million lives and is the largest purchaser of public health benefits in California and the second largest purchaser in the nation. No public agency in California has more clout than CalPERS with health plans, the medical community and labor groups when tackling the complicated issues influencing healthcare premiums and delivery. There is no equivalent voice for agencies and schools to promote accountability, performance and competition among healthcare providers. And, CalPERS offers the leverage of size and contract stability that enables it to provide wellness and disease management programs designed specifically to meet the needs of your CalPERS participants.

CalPERS is driving the market to better maximize your healthcare dollar—instead of reacting to market forces. Today, CalPERS is actively pursuing:

- Alignment in the amounts paid by public agencies for health insurance through CalPERS with what they would pay in the open market
- Greater flexibility to offer varied benefit options to meet public agencies' and employees' diverse needs
- Responsible, innovative strategies to impact and address the key drivers of healthcare cost increases, such as hospital costs

I hope you will remain with CalPERS as we move forward together to address and solve the challenges we all face in the healthcare arena. Please let us know if you have questions or if we can be of service to you. You may reach Curtis Howard, Chief, Office of Employer and Member Health Services, at (916) 326-3577.

Sincerely,



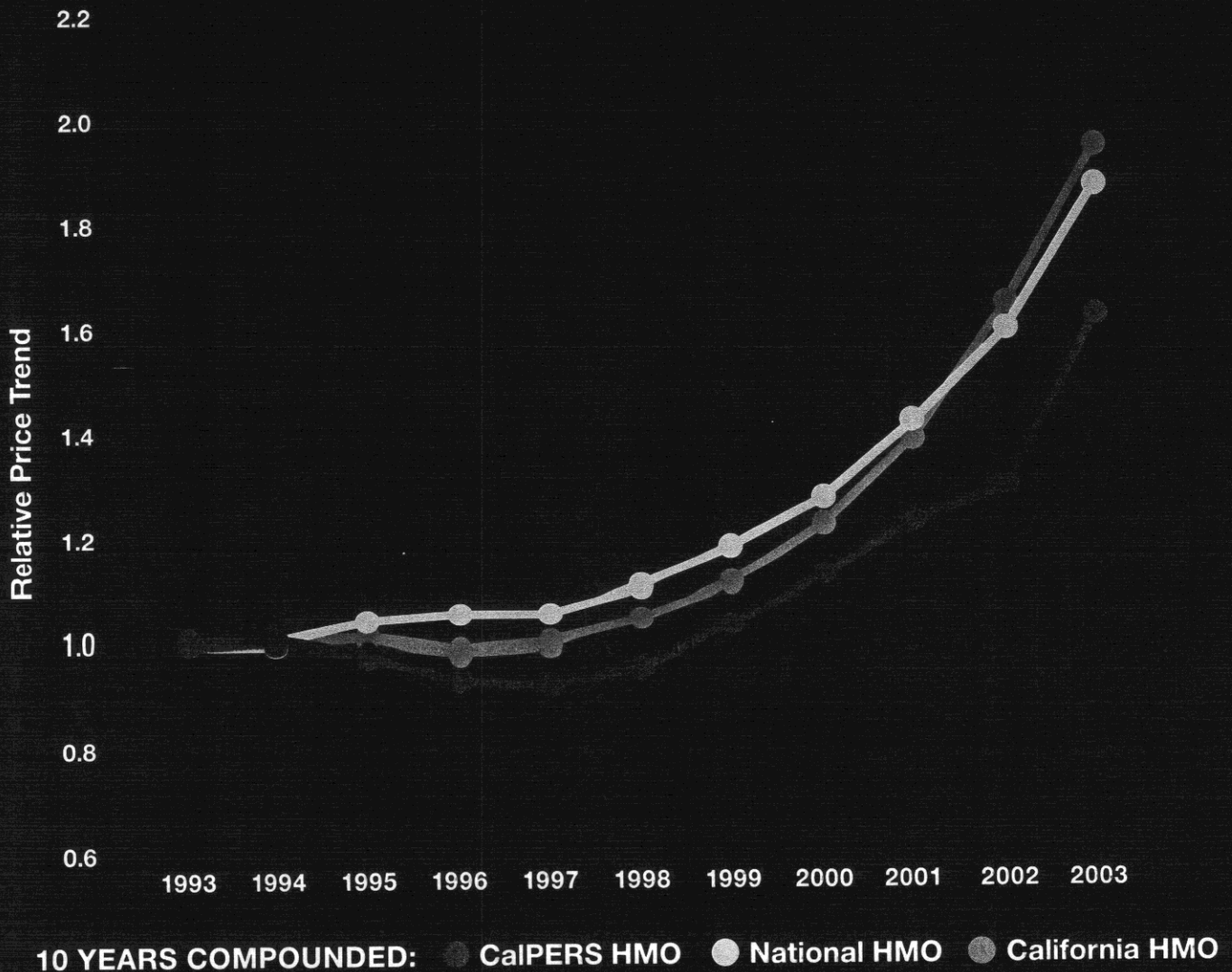
Jarvio A. Grevious

Assistant Executive Officer
Health Benefits

Enclosures

CalPERS Leads the Nation and the State in Low-Cost Public Agency Healthcare

CalPERS Basic HMO Increases Compared to National and State HMO Averages



Sources: CalPERS and Milliman U.S.A. Intercompany Rate Survey

(916) 658-1233



Blue Cross of California is an independent licensee of the Blue Cross Association



Blue Shield of California

An Independent Member of the Blue Shield Association

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CalPERS Health Benefits Program Offers Unbeatable Advantages

CalPERS Health Benefits Program Features and Benefits

➤ **Dependability**

CalPERS Board is knowledgeable about and has a unique focus on healthcare issues.

➤ **Retiree Coverage**

Coverage is available throughout the state as well as worldwide.

➤ **Commitment to Members**

CalPERS Strategic Health Plan is guided by four policy imperatives:

- Seek to lower the cost or improve the value of the premiums spent
- Improve the stability for members while providing greater predictability for participating employers
- Provide enrollees and agencies meaningful choice
- Seek to ensure that enrollees have ongoing access to high-quality, effective care and coverage

➤ **Unique Risk Pool Purchasing Power**

With annual premiums of approximately \$3.89 billion, CalPERS is in a unique position to contract for the best-quality benefits at affordable rates.

➤ **Leadership**

In an ever-evolving industry, CalPERS is taking on key cost drivers, such as hospital contracting, to better control healthcare costs and access.

➤ **Experience**

CalPERS has been providing its members access to quality healthcare at consistent, competitive and affordable rates for more than 40 years.

➤ **Value**

CalPERS leads the nation and the state in low-cost healthcare, demonstrating the lowest trend in increases compared to national and state HMO averages over the past 10 years.

➤ **Affordable, Competitive Three-Tier Rate Structure**

➤ **Choice**

Members have a choice of plans within the CalPERS benefit package:

- Two self-funded PPOs: PERSCare and PERSCheck
- Three HMOs: Blue Shield of California, Kaiser Permanente and Western Health Advantage
- One plan for members of the Peace Officers Research Association of California (PORAC)

➤ **Advocacy**

CalPERS has the ability to leverage change in state and national legislation on behalf of its members and continues participation in the National Coalition on Health Care (NCHC).

● **Lifetime health benefits for retirees of contracting agencies**

CalPERS is unsurpassed in its negotiating power, experience and ability to provide the quality, affordable health benefits program your employees deserve.

We are here to help. Please let us know if you have any further questions or if we can be of service to you.

(916) 658-1233

CalPERS Health Benefits Program: Unique Member Features and Services

A Program That Is Affordable, Diverse, Comprehensive and Innovative

➤ **Comprehensive Health Plan Coverage Available for Employees and Retirees**

➤ **Disease Management Programs**

We offer programs, tools and wellness education to support public employee wellness and quality of life.

➤ **Focus on Quality Care**

Our quality initiatives measure participating health plans' preventive care such as childhood immunizations and cancer screenings for women.

➤ **Performance Measures**

CalPERS requires specific performance measures to guarantee service and quality from participating health plans.

➤ **Online Tools**

Our participating health plans have an array of innovative, state-of-the-art health and wellness education and support for members.

➤ **Streamlined Online Enrollment**

CalPERS provides an automated enrollment system and a universal enrollment form to simplify the enrollment process for employers and employees.

➤ **Online Health Benefit Information**

Up-to-date health and labor industry news is available through the CalPERS Web site and CalPERS *eNews*.

➤ **Collaboration**

CalPERS works with health plans to ensure improved quality of products.

➤ **Expanding Coverage**

We offer coverage that grows with a family and covers dependents, including unmarried children up to age 23 – even if they don't live at home.

➤ **Annual Open Enrollment Period**

Open enrollment meets the changing health needs of employees and retirees.

➤ **Health Fairs**

Members have the opportunity to gain firsthand information about benefits and health plans.

➤ **Dedicated, High Level of Service to Members**

Timely and accurate information is provided through our up-to-date CalPERS Web site and dedicated toll-free Member and Employer Contact Center.

CalPERS is unsurpassed in its negotiating power, experience and ability to provide the quality, affordable health benefits program your employees deserve.

We are here to help. Please let us know if you have any further questions or if we can be of service to you.

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Basic Questions to Answer Before Making a Decision

Determine your future before making a decision about health benefits

- 1. What savings would you expect to see in 2005 if you were to leave the CalPERS Health Benefit Program?** Specifically, what are the savings after calculating new rates, administrative expenses and broker fees for implementing and administering a new plan? How about in 2006 and 2007? Savings should be calculated after administrative expenses incurred due to open enrollment materials, legal review, contract development, enrollment, eligibility, claims resolution, legislative compliance, policy development to support new contract provisions, staff resources, broker fees and other costs associated with leaving CalPERS.
- 2. Do alternative carriers give you an explicit pricing methodology each year through 2006 that clearly states administrative and profit costs as well as broker fee charges?** Has your broker/consultant reviewed the format for your renewal experience report to your satisfaction? Do you understand how an unexpected high claim will impact your renewal? If your experience is poor, can the health plan cancel with a 30-day notice, negating the rate caps that were negotiated?
- 3. Have you budgeted for the administrative cost increases that will be required to administer your own plan?** Do you have board or council approval to add positions during these difficult budget times? Are you prepared to devote time to classification studies? How much time will it take before you can actually hire a benefit specialist on-site or train someone? Are you prepared to handle responsibilities not picked up by new plans, including annual rate negotiations and ongoing administrative, labor negotiations and service tasks?
- 4. Have you been quoted appropriate levels of replacement coverage that do not obligate you to pay for richer benefit packages in the future or leave your out-of-area dependents and/or early retirees with no affordable coverage options?**

- 5. What level of services is your agency accustomed to receiving (including online enrollment systems, automation and customer assistance)?** What services will the health plan carrier and broker be able to guarantee beyond the transition of your agency?
- 6. Which disease management and wellness programs currently available to employees will be continued?** How will you transition these employees impacted by the loss of their wellness programs?
- 7. Have you conducted a provider network comparison to assure your members that they will have access to their valued physicians and hospitals and have you compared the contract provisions, not just the benefit plans, with your current CalPERS plan?** What are the plan policies regarding retroactive adjustments for disenrollments, late enrollments, premium under- and overpayments and adding dependents? Will your new health plan or broker have the clout to deal with provider issues outside your regional area?
- 8. Are rates subject to fluctuation based on changes in your agency's demographics and experience, rather than that of a growing pool of 1.2 million lives?** How will you fund future rate increases resulting from fluctuations in your agency demographics and claims experience in a way that will support your budget processes and labor relations? Is it stronger than a risk pool of 1.2 million lives?
- 9. What role and responsibilities will you assume for out-of-area dependents and retirees?** For those active employees who have dependents outside the HMO service coverage and for whom they are required to provide coverage, are you aware of the limits or restrictions pertaining to these dependents?
- 10. Are you prepared to handle responsibilities not covered by new plans, such as administration of COBRA and premium collection?** Do alternative carriers provide services such as printing and mailing of open enrollment materials or online capabilities for enrollment and electronic fund transfer? If so, do they clearly state the administrative costs for these services?

We are here to help. Please let us know if you have any further questions or if we can be of service to you.

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CalPERS Replacement Checklist: Labor Concerns

Benefits and Advantages	CalPERS	Other
A dedicated, knowledgeable Board with support for labor and a distinct focus on healthcare issues	Yes	
The negotiating and purchasing clout offered only by the largest healthcare purchasing pool in the state	Yes	
Cutting-edge wellness and disease management programs for your members, such as heart failure, asthma, diabetes, cardiovascular disease and arthritis programs	Yes	
Contract provisions that guarantee your agency won't be canceled due to costly health-claims experience	Yes	
Full-service administration and support, including online enrollment and dedicated member services	Yes	
Administrative costs less than one-half of 1 percent (.44%) vs. an average of 8% charged by brokers	Yes	
No broker's fees or commissions	Yes	
Worldwide health plan coverage available for employees and retirees, and out-of-area dependent coverage also available	Yes	
A risk pool with more provider-negotiating clout than any other public agency group in California, which means greater stability in hospital and doctor choices for your members	Yes	